

Agricultural Land Assessment Implementation and Oversight Advisory Task Force

The Agricultural Land Assessment Implementation and Oversight Advisory Task Force consists of four members of the House of Representatives, four members of the Senate, and six members of the general public (at least two of the general public members shall have an agricultural background and at least two of the general public members shall have a business background).

Study Assignment

The task force shall review the implementation of the provisions of law concerning the assessment and taxation of agricultural land and advise the Department of Revenue regarding the rules promulgated by the department to administer the provisions concerning the assessment and taxation of agricultural lands. In addition, the task force shall make recommendations in the following areas:

1. The proper percentage of annual earning capacity to be used to determine the agricultural income value for cropland and noncropland;
2. The proper capitalization rate that minimizes the shift in total taxable value between agricultural land and the other property classifications;
3. The changes, if any, that must be made to pension fund levy, capital outlay levy, or special education tax levy to ensure that the total amount of additional taxes that may be generated on agricultural land by a school district pursuant to the provisions will not provide a substantial property tax revenue increase or decrease for the school district, pursuant to the implementation of the productivity; and
4. The distribution of the local effort for the general fund of school districts between the classifications of real property for the general fund of school districts. The task force shall also consider the other taxes paid by agricultural property, the relationship of the total assessed value of agricultural property to the total assessed value of all real property, and other factors the task force deems appropriate.

Summary of Interim

The interim Agricultural Land Assessment Implementation and Oversight Advisory Task Force held its first meeting on July 20. Ms. Tami Darnall, Director, Office of Finance and Management, Department of Education reviewed the per student allocation (PSA) formula, the small school adjustment (SSA) formula, and the limited English proficiency adjustment (LEP) formula.

The FY 2016 per student allocation (PSA) per state statute is \$4,876.76. The per student allocation allows for yearly increases from the previous year based on the consumer price index (CPI), or by three percent, whichever is less. The small school adjustment (SSA) formula is a basic slope formula - as the student number increases, the amount per student goes down. Funding for LEP adjustments is a partnership between state dollars and local property taxes.

Ms. Darnell reviewed local effort, which are taxes generated by applying the general fund levies tied to the property valuations. The 2016 levies were set by the 2015 Legislature. She pointed out that school general fund levies is the only area where levies are set differently for each property class. The levies for pay 2016/\$1000 of taxable valuation for the Ag, Owner-Occupied, and NonAG property classifications are: \$1.568, \$4.075, and \$8.725, respectively.

The Cutler-Gabriel Amendment requires that state and local effort maintain the same ratio for state aid from one fiscal year to the next. The state's share is currently at 53.8% while the ag share of local effort is targeted at 18.45%. To set the levies, the department has to look at two calendar years. For example, to set the levies for property taxes payable in 2016, they must estimate property valuations for the calendar year 2016 and look ahead and estimate the state aid need for FY 2017. They determine the levy needed for each property classification to meet local effort for the year after the one being budgeted; target ag land classification at 18.45% and maintain proportionality with the other classifications. Several adjustments are factored into the formula including lost local effort, estimated new growth in taxable valuations, and number of students.

Mr. Michael Houdyshell, Director of Property and Special Taxes Division for the Department of Revenue, presented the Report on Productivity Valuation for the 2016 Assessment Year.

Full productivity value will be reached by 2020. Presently six counties in the state are at full productivity value for cropland and all but one county are at the full productivity value for noncropland. Many more counties are projected to be at or close to full productivity for cropland in 2016.

Commodity prices have been increasing steadily since the implementation of the productivity model. Statewide, ag land valuations are presently at \$31.5 billion, an increase of \$11.8 billion since 2011. The total statewide valuation is presently \$75.8 billion, an increase of \$16.9 billion since 2011. Approximately 70% of the total statewide increase in valuations since 2011 has been in the ag lands valuation.

After property taxes payable in 2015, the taxes for the school cap outlay fund and the pension fund will not be limited by property tax limitation provisions. Mr. Houdyshell advised that taxpayers should pay attention to the local school board discussions within the next month and monitor what takes place. He thinks further increases in capital outlay fund taxes will be mitigated somewhat by the slowing in growth of ag land valuations.

The items of note for 2016 that were reported are:

- The cropland Olympic average increased 5.6 percent on a statewide basis (compared to 14.1 percent last year); and
- The noncropland Olympic average increased 2.3 percent on a statewide basis (compared to 2.0 percent last year).

The public provided input to the task force regarding concern that the noncropland taxable valuations are high in comparison to the income that may be received from the property. They are concerned that

the soil classifications don't account properly for the productivity of the land. Concern was also expressed regarding grassland located on cropland soils and it is impractical and economically infeasible to use the land as cropland.

During the second meeting on November 2, Dr. Matthew Elliott, Economics Department, South Dakota State University, recommended that there be no change in the present landlord cropland share factor of 35% or the capitalization rate or multiplier of 6.6%. Both factors are used for determining agricultural income value and ultimately the individual's property tax assessment.

Ms. Susie Simkins, Fall River County Director of Equalization, presented information using four different means of analysis to determine the income capability of the agricultural land. This information showed that the assessed valuation of property using the current soil classifications and data provided through the productivity model is too high when compared to the land's income producing capability.

The committee reviewed and received public testimony on five legislative drafts and voted to introduce the following three drafts:

1. *An Act to provide for the assessment of certain agricultural land as noncropland.*
The proposed legislation provides a means for native grass land or land seeded to grass for thirty years to be categorized as noncropland for the purpose of determining its agricultural income value.
2. *An Act to revise the criteria for determining if property is classified as agricultural land for property tax purposes.*
This draft revises the criteria used in determining agricultural land classification.
3. *An Act to make an appropriation to revise and update the values and methods used to determine the agricultural land production capacity and to declare an emergency.*
The draft requests a general fund appropriation of \$175,000 for the purpose of requesting South Dakota State University Department of Economics to conduct research concerning the value and methods used to determine the agricultural land production capacity and update the data used in the soil tables.

Summary of Meeting Dates & Places

The task force met on July 20, November 2, and December 7 in Pierre.

Listing of Task Force Members

Members of the task force were Senator Jim Peterson, Chair; Larry Rhoden, Vice Chair; Senators Gary Cammack, Billie Sutton, and Larry Tidemann; and Representatives Julie Bartling, Mary Duvall, Dennis Feickert, and Lee Qualm; and Public Members Kirk Chaffee, Trevor Cramer, Lyle Perman, Kim Vanneman, and Mike Wiese.

Listing of Staff Members:

Staff members were Fred Baatz, Principal Research Analyst; Amanda Jacobs, Research Analyst; and Rena Ortbahn, Committee Secretary.